

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE EDEN DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Eden District Municipality set out on pages 4 to 87, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Eden District Municipality as at 30 June 2013 and its financial performance, cash flows and comparison of budget and actual amounts for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

7. With references to note 37 to the financial statements, the municipality is the defendant involving the provision of technology services. The outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.
8. With reference to note 37 to the financial statements, the municipality is in dispute with other municipalities in a property ownership lawsuit. The book value of the properties at year end disputed is amounting to R159 644 620. The outcome of the matter cannot presently be determined and no provision for any liability or asset that may result has been made in the financial statements.

Restatement of corresponding figures

8. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during the year ended 30 June 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Additional matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annual report

10. The draft annual report was provided for auditing. A high-level overview was performed on the draft document and no material inconsistencies were identified. The final printer's proof of the annual report will again be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

Unaudited supplementary schedules

11. The supplementary information set out on pages 86 to 87 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

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13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 24 to 107 of the annual report.
14. The reported performance against predetermined objectives was evaluated against the

overall criteria of usefulness and reliability.

15. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
16. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. The material findings are as follows:

Usefulness of information

18. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents.
 - A total of 28% of the reported indicators were not consistent or not complete when compared to the planned indicators in the approved integrated development plan.
 - A total of 26% of the reported targets were not consistent or not complete when compared to the planned targets in the approved integrated development plan.
19. This was due to the senior leadership not emphasising the reporting of performance against the integrated development plan, as approved key performance indicators were not reported in the annual performance report.

Reliability of information

20. The information presented with respect to Development priority 2, Development priority 3, Development priority 5, Development priority 6, Development priority 9 was not reliable when compared to the source information and/or evidence provided. This was due to the lack of monitoring of the completeness of source documentation in support of actual achievements.

Compliance with laws and regulations

21. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Asset management

22. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure management

23. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

24. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Annual financial statements

25. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 122 of the MFMA. Material misstatements of revenue identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Internal control

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

27. Management's procedures for the review of the financial statements were not adequate to ensure that the financial statements submitted for auditing were accurate and complete.
28. The accounting officer did not take adequate steps to mitigate the risk of non-compliance in the supply chain unit to prevent irregular expenditure by evaluating the supply chain practices of the municipality against the requirements of legislation.
29. The accounting officer did not perform adequate monitoring processes to ensure that the performance reported in the annual performance report could be verified or agreed to supporting documentation.

Financial and performance management

30. The municipality did not develop internal control processes to confirm that the information provided for inclusion in the financial statements and annual performance report was accurate and complete, as management did not allow sufficient time to review the financial statements in detail and to accommodate last-minute changes.
31. The asset and property register was not adequately maintained and the underlying records were not adequately reviewed to determine the validity of descriptions and the classification of properties, which led to misstatements relating to the existence and valuation of property plant and equipment.

32. Management did not adequately perform their responsibilities when reporting on performance, which resulted in the performance report being unreliable.

Auditor-General

Cape Town

29 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

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